

HB-534

Submitted on: 2/2/2019 11:57:21 AM

Testimony for EDB on 2/6/2019 10:10:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ann Chung	Pacific Marine	Support	Yes

Comments:

We STRONGLY SUPPORT HB534. Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint in Pearl Harbor will continue to grow slightly by 2025, the surface combatant fleet currently homeported in Pearl Harbor is planned to be significantly reduced and surface ships will be relocated to San Diego for deep maintenance, and most are at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018.

The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's drydock capacity shortfalls will refocus nearly 100% of the current PH drydock capacity on submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. **THE LOSS OF NAVY SURFACE SHIP DRYDOCK MAINTENANCE TO THE PH PRIVATE-SECTOR SHIP REPAIR COMMUNITY WOULD SIGNIFICANTLY SHRINK THE LOCAL INDUSTRY AND BE UNRECOVERABLE.**

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: **LOSS OF NEARLY 1.31 BILLION IN HAWAII GDP, \$351 MILLION IN LABOR EARNINGS, AND AN ANNUAL AVERAGE OF NEARLY 1000 JOBS EACH YEAR.**

The construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawaii. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its

50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future.

We urge you to pass this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Ship Repair Industry Tax Credit

BILL NUMBER: HB 534; SB 972 (Identical)

INTRODUCED BY: HB by NAKASHIMA; SB by KIDANI, S. CHANG, Shimabukuro

EXECUTIVE SUMMARY: Establishes the ship repair industry income tax credit for non-profit entities to offset costs incurred to construct and put into service purpose-built floating drydocks at Pearl Harbor for use by the United States Navy. Claims for the ship repair industry income tax credit can be made annually after the drydock is put into service and until the credit is exhausted. Repeals the capital infrastructure tax credit (which was scheduled to sunset on Dec. 31, 2019 anyway).

SYNOPSIS: Amends HRS section 235-17.5 (which now defines the capital infrastructure credit that is set to sunset on Dec. 31, 2019) to become the ship repair industry tax credit.

Allows a credit of ___% of the total costs paid or incurred by a qualified entity to design and construct the purpose-built floating dry dock to be used by the United States Navy in Pearl Harbor. A qualified entity shall become eligible for the maximum credit of \$_____ per qualified entity after construction of the floating drydock has been completed and the floating drydock has been placed into service.

Defines "ship repair industry costs" as capital expenditures, as used in section 263 and 1012 of the Internal Revenue Code and the regulations promulgated thereunder, or capital expenditures for real property, fixtures, structures, machinery, equipment, or capital assets that are paid or incurred in connection with the construction of a purpose-built floating drydock; provided that the ship repair industry costs shall not include amounts for which another credit is claimed or any amounts received in any form from the State.

Defines "qualified entity" as a not-for-profit entity with the principal purpose of facilitating and enhancing the ship repair business in Hawaii and that is involved in the design and construction of a purpose-built floating drydock to be used by the United States Navy in Pearl Harbor.

Provides that a qualified entity may form a special purpose entity for the purposes of raising investor capital and claiming the credit on behalf of the qualified entity; but the qualified entity, together with all of its special purpose entities, including all partners and members of the qualified entity and its special purpose entities, shall not claim any credit in excess of \$_____.

The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. Credits in excess of a taxpayer's income tax liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims, including amended claims, for a tax credit shall be filed on or before the end of the twelfth month

following the close of the taxable year. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

In the case of an entity taxed as a partnership, credit shall be determined at the entity level, but distribution and share of the credit may be determined notwithstanding section 704 or section 706 of the Internal Revenue Code.

Sunsets on December 31, ____.

Any taxpayer claiming a tax credit under this section shall, within ninety days of the end of the calendar year, submit the following information to the department of taxation: (1) the amount of the eligible costs [for that year] for which the tax credit may be claimed; and (2) the qualified entity which incurred the costs. Failure to timely submit the information shall be subject to a penalty of \$5,000 per month or a fraction thereof, not to exceed \$25,000.

EFFECTIVE DATE: This Act, upon its approval, shall apply to taxable years beginning after December 31, 2018.

STAFF COMMENTS: Tax credits generally are designed to reduce the tax burdens of certain groups by refunding a portion of taxes paid on purchases of essential items and services. The credit proposed by this measure amounts to nothing more than a subsidy of state funds as there is no obvious undue burden of taxes. And as with any subsidy, this one needs to be paid for. Either government needs to shrink, or the cost of government must be borne by all other taxpayers who do not qualify for the subsidy.

Here, the idea apparently is that public money is going to be used to pay for a substantial part of a floating drydock that is going to be used to make money and in which the State will have no ownership or other rights.

Technical problems abound within this bill. Here are some of them:

1. Who would be eligible to claim the credit, the qualified entity (a nonprofit), its investors, its special purpose entities, or some combination of the above? The bill as now drafted does not clearly answer this question.
2. What is the tax credit based on? Total costs to design and construct as provided in subsection (c), or ship repair industry costs as defined in subsection (b)? If the former, why define ship repair industry costs?
3. When the construction of the drydock has been completed and placed into service, does the qualified entity then become entitled to claim the maximum allowable credit regardless of how much (or how little) costs were expended? That appears to be what the last sentence of (c) implies.

Until these technical issues are addressed, it is difficult to understand exactly what is being proposed and how much the budgetary impact would be.

Digested 2/2/2019

HB-534

Submitted on: 2/4/2019 9:27:31 AM

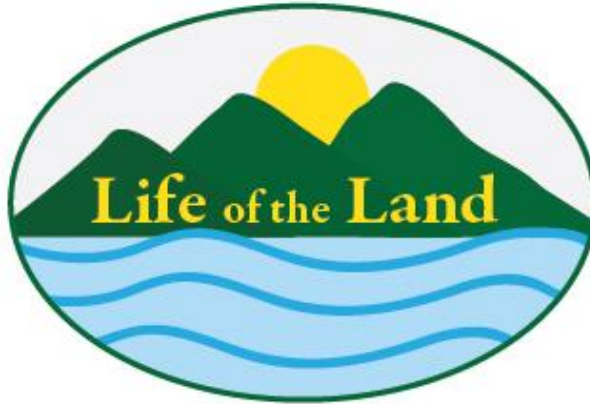
Testimony for EDB on 2/6/2019 10:10:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Buelsing	Pacific Marine & Supply, Co.	Support	No

Comments:

Through its subsidiary, Pacific Shipyards International, LLC., Pacific Marine has been involved with the Ship Repair Association of Hawaii (SRAH) since its founding in 2002. Without the addition of new drydocking capacity at Pearl Harbor Naval Shipyard (PHNSY), SRAH anticipates that all or nearly-all of the private-sector supported surface-ship maintenance activities at PHNSY could be forced to relocate to San Diego - an estimated loss of nearly 1,000 jobs and a GDP impact to the State of Hawaii of up to \$1.31 billion over the next seven years alone.

To avoid this outcome, Pacific Marine supports the initiative to deploy a purpose-built mobile floating drydock at Pearl Harbor, and specifically supports H.B. 534.



P.O. Box 37158, Honolulu, Hawai'i 96837-0158
Phone: 927-0709 henry.lifeoftheland@gmail.com

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Lisa Kitagawa, Vice Chair

DATE: Wednesday, February 6, 2019

TIME: 10:10 a.m.

PLACE: Conference Room 309

HB 534 RELATING TO SHIP REPAIR INDUSTRY.

CONCERNS

Aloha Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee

Life of the Land is Hawai'i's own energy, environmental and community action group advocating for the people and `aina for 49 years. Our mission is to preserve and protect the life of the land through sound energy and land use policies and to promote open government through research, education, advocacy and, when necessary, litigation.

This is one of several bills designed to give tax breaks and tax incentives to Pearl Harbor Floating Drydock, LLC, an entity that is not registered at the state or federal level, involved with a federal \$5,000,000,000 project.¹

Life of the Land has consistently testified that entities seeking tax breaks, tax incentives, and the right to issue Special Purpose Revenue Bonds (SPRBs) should identify themselves, be registered, and explain why the funding is needed.

Mahalo

Henry Curtis
Executive Director

¹ <https://inmilitary.com/pearl-harbor-shipyard-changes-planned-to-meet-submarine-need/>



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Economic Development & Business
Wednesday, February 6, 2019 at 10:10 A.M.
Conference Room 309, State Capitol**

RE: HB 534 RELATING TO SHIP REPAIR INDUSTRY TAX CREDIT; PEARL HARBOR; INCOME TAX

Chair McKelvey, Vice Chair Kitigawa, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 534, which establishes the ship repair industry income tax credit for non-profit entities to offset costs incurred to construct and put into service purpose-built floating drydocks at Pearl Harbor for the use by the United States Navy. Claims for the ship repair industry tax credit can be made annually after the drydock is put into service and until the credit is exhausted. Repeals the infrastructure tax credit.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint in Pearl Harbor will continue to grow slightly by 2025, the surface combatant fleet currently homeported in Pearl Harbor is planned to be significantly reduced and surface ships will be relocated to San Diego for deep maintenance, and most are at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018.

The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's drydock capacity shortfalls will refocus nearly 100% of the current PH drydock capacity on submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. The loss of Navy surface ship drydock maintenance to the Pearl Harbor private-sector ship repair community would significantly shrink the local industry and be unrecoverable.



Chamber of Commerce HAWAII

The Voice of Business

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: **LOSS OF NEARLY 1.31 BILLION IN HAWAII GDP, \$351 MILLION IN LABOR EARNINGS, AND AN ANNUAL AVERAGE OF NEARLY 1000 JOBS EACH YEAR.**

The construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawaii. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future.

Thank you for the opportunity to testify.

A & B Electric Co., Inc.

February 4, 2019

To: House Committee on Economic Development & Business
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

From: Malcolm Barcarse, Jr.
Vice President of A & B Electric Co., Inc.

RE: **OPPOSITION** to HB 534 Relating to Ship Repair Industry

Chair McKelvey, Vice Chair Kitagawa and members of the Committee,

A & B Electric Co., Inc. is an electrical contractor who has been in business since 1986, servicing commercial, industrial, and marine customers. One of the industries that we service is the ship year industry as an electrical subcontractor to the ship repair industry in Hawaii. We stand in **OPPOSITION** to this bill which seems to solely benefit a company that does not current currently exist (as this bill appears to be a companion bill to HB 535 which was heard by this committee on January 30, 2019) and would give them a competitive edge in the marketplace with state assistance.

Currently there are 3 private drydocks in the State that provide docking repairs to for Private, State, and military vessels. With the upcoming expiration of the Multi Ship Multiple Option (MSMO) contract, which is currently being held by BAE Hawaii Shipyards. It will give the various companies in the ship repair industry in Hawaii an opportunity to compete for the various repairs to the nine homeported destroyers at Pearl Harbor. Some of these availabilities will require drydock services some of them will not. The availabilities that require drydock services will require the existing ship repair companies to upgrade their drydocks for these future availabilities

We **OPPOSE** this bill as it appears that the legislature is appearing to favor one entity in a competitive local marketplace. We feel that it is an inappropriate use of tax payer dollars in the form of tax credits to benefit one company in a competitive marketplace. We further note, that this bill is to benefit a company that does not even exist. (See attachment of DCCA business entity search showing no company named Pearl Harbor Floating Drydock LLC dated 2/4/2019.)

You are here: BREG Online Services

Contains

pearl harbor floating drydock

Search

Cart

Home - BREG

BREG Online Services

Annual Business Filing

Search for a Business Entity

Purchase Documents Online

Purchase Certificate of Good Standing

Authenticate a Certificate of Good Standing

Register a Business

MyBusiness Notifications

My Trade Name/TM/SM Notifications **NEW**

Entity List Builder

Contact BREG

Technical Support

Feedback

Create an Account



Search for Business Entity & Documents

Search for a business by name. You can obtain file number and business information and then proceed to purchase a certificate of good standing or other documents.

There are no businesses for this search term.

Contains

pearl harbor floating drydock

Search

You may also **authenticate** a certified document or Certificate of Good Standing (COGS).

Please note: The results of this search should not be used as a definitive method to determine name availability. The purpose of this search is simply to determine whether a company/entity exists and to provide basic information on the company/entity. Contact the Department of Commerce and Consumer Affairs - Business Registration Division at (808) 586-2727 for assistance with business registrations. If you are registering a business entity name, **NEVER** assume the name is available until you have received a response from the Business Registration Division. You may also read the **Business Naming Rules**.

Subscription Services

Terms of Use

Privacy Policy

ADA Compliance

State Portal

Comments

Contact Us

Copyright © 2019 Hawaii Information Consortium, LLC. All rights reserved.

View in: [Mobile](#) | **Classic**





Ship Repair Association of Hawaii

P.O. Box 29001, Honolulu HI 96820
Ph# (808) 848-6211 Fax# (808) 848-6279

4 February 2019

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Lisa Kitagawa, Vice Chair

Testimony for HB534

DATE: Wednesday, February 6, 2019

TIME: 10:10 a.m.

PLACE: Conference Room 309

State Capitol, 415 South Beretania Street

Dear Representative Angus L.K. McKelvey, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the Economic Development & Business Committee:

The Ship Repair Association of Hawaii (SRAH) Strongly Supports the establishment of the ship repair industry income tax credit for non-profit entities to offset costs incurred to construct and put into service purpose-built floating drydocks at Pearl Harbor for use by the United States Navy.

Respectfully yours,

A handwritten signature in black ink that reads "Iain S. Wood". The signature is written in a cursive, flowing style.

Iain S. Wood, President

Ship Repair Association of Hawaii

Page 1 of 1
Member Firms

Aerotek - Airgas Gaspro – AMP United - Anawati & Associates - BAE Hawaii Shipyards - C & S Services - CB Tech Service - Dresser-Rand - EMS Ice Epsilon Systems – Fortior Solutions - Hawaii Marine Cleaning - HSI-Electric Boat - HSI Mechanical, Inc. - IMIA, LLC. - Inspec Testing - Jo-Kell, Inc. Leeward Marine, Inc. - Marisco, LTD. - Oceaneering International, Inc. - Pacific Shipyards International - PCE Hawaii, LLC. - Penco - Phoenix International Q.E.D. Systems, Inc. - Regal Service Co. - Safway Services, LLC. – Signal – SureID – The American Equity Underwriters, Inc. Trident Maritime Systems TY Realty Hawaii - UTS Maritime Services - Wardlaw Maritime

TESTIMONY

FOR HB 534 - RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC.

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Lisa Kitagawa, Vice Chair

DATE: Wednesday, February 6, 2019

TIME: 10:10 a.m.

PLACE: Conference Room 211

As a former Commanding Officer of the Pearl Harbor Shore Intermediate Maintenance Activity (SIMA) and the Intermediate Maintenance Officer for the COMMANDER, PACIFIC FLEET, I gained significant expertise and experience in the criticality of the private sector ship repair industrial base in Hawaii. Additionally, I was an Executive Manager at Honolulu Shipyard and Pacific Shipyards at a critical period in the Industry's history. Ultimately, I was the President of BAE Systems Ship Repair until retirement in 2015 and the BAE Hawaii Shipyards located at DD# 4, and the prime contractor on the current multiyear surface ship contract, was one of my key Business Units in my AOR (Area of Responsibility).

Therefore, I have had direct and personal involvement in the local ship repair Industry for over 20 years and keenly aware of the vital role it plays in supporting Pearl Harbor home ported surface ships and those transiting ships in the Pacific. There is a critical balance of public/private workload that is required to maintain a trained and vibrant Industry. Without a stable and predictable non-nuclear surface ship workload, the Industry will decline and erode to the point where it is unrecoverable.

Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint and associated workload in Pearl Harbor will continue to grow, the home ported surface ship workload is forecasted to be significantly reduced, based on the current Navy Workload Schedules which reflect surface ships being relocated to San Diego for dry-docking related maintenance, and some at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018. The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's documented drydock capacity shortfalls will refocus almost all of the current PH drydock capacity on critical submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. The loss of Navy surface ship drydock maintenance to the Pearl Harbor private-sector ship repair community would cause irrecoverable damage to this critical Industry, which is a national asset.

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: loss of nearly \$1.31 billion in Hawaii GDP, \$351 million in labor earnings, and an annual average of nearly 1000 jobs each year. **Current workload schedules are**

forecasted through 2025 and if this drydock shortfall is not remedied, this economic impact will continue.

The immediate and most cost-effective solution for the State of Hawaii is the construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the Industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset that can be in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future.

HB-534

Submitted on: 2/2/2019 9:20:55 PM

Testimony for EDB on 2/6/2019 10:10:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Alan S. Hayashi	Individual	Support	Yes

Comments:

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Chair McKelvey, Vice Chair Kitagawa, and members of the committee

Thank you for the opportunity to testify. My name is Alan S. Hayashi, testifying as a concerned citizen, in STRONG SUPPORT of passage of this bill, HB534.

Unless legislative assistance is provided by the Hawaii State Legislature in this 2019 session, the Ship Repair industry, as a critical part of Hawaii's heavy industrial base, will start to disappear in 2023, with resulting loss of \$1.3B in revenue and about 900-1,000 jobs, per recent report submitted to DBEDT and the Hawaii State Legislature by the Ship Repair Association of Hawaii.

I urge your consideration and passage of this measure to save this critical sector of Hawaii's Ship Repair industry. Thank you for your consideration.

I will stand on my testimony, however, if any questions, I will be glad to address your concerns. ALOHA, Alan Hayashi

TESTIMONY OF PAUL H. BREWBAKER, Ph.D., CBE
REGARDING HB534 RELATING TO SHIP REPAIR INDUSTRY
February 4, 2019

HOUSE OF REPRESENTATIVES
THE THIRTIETH LEGISLATURE
REGULAR SESSION OF 2019

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

Chair, Vice-Chair, and Members of the House Committee on Economic Development and Business, I submit this testimony in support this bill and your process to evaluate mechanisms to preserve Hawaii’s ship repair industrial capacity. My name is Paul H. Brewbaker and I am a private, consulting economist with a long background in Hawaii commercial banking and twenty years of service as a former member and Chair of the Hawaii Council on Revenues. Currently I specialize in corporate economic consulting in Hawaii, and in some litigation support.

In 2018 I was engaged as an economics consultant by the Ship Repair Association of Hawaii to analyze economics impacts of the possible loss of dry dock capacity at Pearl Harbor Naval Shipyard. The shipyard is the last major concentration of industrial manufacturing in Hawaii, and an important center for employment in skilled industrial trades and, through extensive apprentice programs, training and human capital formation.

Nuclear submarine maintenance and repair capabilities in Hawaii are of critical importance in an evolving geopolitical environment pivoting towards the Asia-Pacific region. Naval surface vessel repair capabilities in Hawaii are at risk of losing productive capacity when one of four dry docks at Pearl Harbor is taken out of service for renovations to adapt to a new generation of submarines being deployed in Hawaii during the 2020s. Investment in an additional floating dry dock at modest initial cost will preserve surface vessel repair capabilities which otherwise would be relocated to the U.S. West Coast and elsewhere.

My research estimates that a significant proportion of Hawaii surface vessel repair activities of \$150-200 million annually would be foregone if the Navy’s plan to displace naval surface vessel repairs to the mainland is undertaken without replacement of the lost dry dock capacity at Pearl Harbor. An estimated \$1.31 billion in Hawaii GDP will be foregone, cumulatively 2019-2025, as a consequence of displacing \$832 million in naval surface vessel repairs, all in present-value, 2018 dollars. Replacing the lost dry dock capacity with a floating dry dock—“displacement *with* replacement”—will not only preserve this capability but would enhance the Navy’s ability to optimize certain homeporting decisions. This could generate \$861 million in naval vessel repairs, associated with \$1.36 billion in Hawaii GDP cumulatively, 2019-

2015 instead of the foregone amounts. (These estimates ignore the option value of potential future civilian vessel repairs if, after dry dock renovations at Pearl Harbor are complete, the fifth, floating dry dock were to be repurposed, as well as its mark-to-market in the event of a future sale.)

Naval surface vessel repairs are undertaken by private contractors whose work complements in-house work on submarines by the Navy. Civilian contractors' repair work now at risk of displacement is associated with 900-1,000 jobs in Hawaii's economy. The Navy itself employs more than 5,000 in submarine repair activities, nearly one-fifth of which are apprentices in training. Collectively these jobs are in highly-skilled industrial occupations earning \$70,000-100,000 per year.

A mechanism to help investors and capital markets finance replacement of dry dock capacity at Pearl Harbor Naval Shipyard, through a non-profit organization as this bill proposes or some other method, could be a crucial vehicle for preserving industrial employment and marine vessel repair industrial capacity in Hawaii. De-scaling the industry will raise its average production cost and undermine its competitiveness. Major industry shifts of the sort being contemplated by the Navy have a way of persisting over time even when the original conditions—full operability of four dry docks at Pearl Harbor Naval Shipyard—subsequently have been restored. Even temporarily disrupting the flow of human capital formation in skilled industrial trades, for the purpose of rehabilitating aging productive capacity, risks permanently impairing Hawaii's future ability to provide both civilian and Naval vessel repair services. At a time when Hawaii's role in the projection of America's strategic presence in the region may be at stake, such a disruption could be extremely costly.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

LATE

To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Development & Business

Date: Wednesday, February 6, 2019
Time: 10:10 A.M.
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 534, Relating to Ship Repair Industry

The Department provides the following comments regarding H.B. 534 for your consideration.

H.B. 534 repeals the capital infrastructure tax credit and in its place establishes the ship repair industry income tax credit, utilizing a non-profit entity, to construct and place into service purpose-built floating drydocks at Pearl Harbor for use by the United States Navy. The measure is effective upon approval and applies to taxable years beginning after December 31, 2018.

First, the Department notes that the measure repeals the capital infrastructure tax credit and enacts the ship repair industry tax credit by amending section 235-17.5, Hawaii Revised Statutes (HRS). To prevent any confusion the Department suggests repealing section 235-17.5, HRS, and creating a new section in chapter 235, HRS, for the ship repair industry tax credit.

Second, to prevent any unexpected revenue loss, the Department suggests that language in section (c)(2) of the credit read as follows:

The qualified entity, together with all of its special purpose entities, including all partners and members of the qualified entity and its special purpose entities, shall not claim any credit in any one taxable year that exceeds of \$ _____; and

This provision will ensure that the revenue loss does not exceed what the Legislature intended.

Third, the Department notes that Hawaii income tax law adopts or conforms to Internal Revenue Code sections 704 and 706. These sections generally require distribution of a credit in

proportion to the ownership in the partnership or other pass-through entity and provide guidance as to the taxable year of partner in relation to the partnership. As currently written, distribution of the ship repair industry credit does not need to be consistent with these provisions.

Finally, the Department respectfully requests that this new credit be made available for taxable years beginning after December 31, 2019 to allow sufficient time to make the necessary form, instruction and computer system changes.

Thank you for the opportunity to provide comments.

February 5, 2019

LATE

To: House Committee on Economic Development & Business
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

From: Fred Anawati
President/Owner Marisco Ltd

RE: **OPPOSITION** to HB 534 Relating to Ship Repair Industry
Notice of Hearing:
Date: Wednesday, February 6, 2019
Time: 10:10 a.m.
Place: Conference Room 309
State Capitol
415 South Beretania Street

Chair McKelvey, Vice Chair Kitagawa and members of the Committee,

Marisco, Ltd. is a Ship Repair business that has been in business in Hawaii since 1974, servicing Navy, Army, Air Force, Coast Guard, Commercial and other businesses in Hawaii. Marisco, Ltd. is a member of the Hawaii Ship Repair Association and continues to service both Commercial clientele as well as Federal clientele as both a Prime contractor and sub-contractor. Marisco **OPPOSES** HB 534 (as this Bill is a companion to Bill HB535) as this bill is written with the intentions to provide Tax credits and/or funding to a non-existent LLC (Pearl Harbor Floating Drydock, LLC) that will provide a competitive edge in the Hawaii marketplace with State assistance.

Due to changes in the size of the newer submarines being homeported in Pearl Harbor, and the subsequent drydock constraints of Pearl Harbor Naval Shipyard, the Ship Repair Association of Hawaii's intent is to explore options for the Hawaii Ship Repair Industry to provide an avenue to keep homeported Navy's Surface Ships and Submarines Maintenance in Hawaii, however a separate dialog between the Navy and Ship Repair members has been discussed and is continuing discussion presently. Even if State Tax credits and/or funding for construction of a large Floating Drydock is provided, there is no commitment at this time that Pearl Harbor Naval Shipyard will allow the Drydock to be moored or operated in Pearl Harbor. If another means of keeping the maintenance in Hawaii is preferred by the Navy, what will any monies spent or Tax credits provided for design or construction of a Floating Drydock amount to? Where, in what State Harbor, would the Floating Drydock be moored? How could the State assisted competitive edge gained by the company that owns and controls the Floating Dry dock be mitigated so as to not have a negative and lasting impact to the Hawaii Ship Repair Industry?

Marisco, Ltd. **OPPOSES** this bill as it appears that the legislature is appearing to favor one entity in a competitive local marketplace. We feel that it is an inappropriate use of tax payer money to provide Tax credits and/or funding to construct a Floating Drydock without an agreement from the US Navy that the Drydock will be moored and used in Pearl Harbor Naval Shipyard and that it will solely benefit a non-existing LLC providing it a State assisted competitive edge which may negatively impact the Hawaii Ship Repair Industry.